UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

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UNIVERSAL CITY STUDIOS, INC., :

Plaintiff, : 82 Civ. 4259 (RWS)

-against- :

NINTENDO CO. LTD. and NINTENDO OF AMERICA, INC., :

Defendants. :

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PLAINTIFF'S MEMORANDUM

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interference with contractual relations and interfering with Nintendo's "prospective economic advantage." There is no evidence that Universal caused any potential Donkey Kong licensee to forego entering a contract with Nintendo (the crux of the Fifth Counterclaim). Nor is there a legal basis for Nintendo's trademark diminution claim, which holds that the Donkey Kong trademark was "diminished" or "impaired" by virtue of Universal's having made a claim that Donkey Kong infringed King Kong. If the Court believes an evidentiary hearing should be held on any issue raised by these counterclaims, Universal is obviously prepared to proceed on that basis. But there are manifest legal deficiencies with these claims, deficiencies sufficient to warrant their dismissal by summary judgment as Universal urges here.

C. The Basis of Universal's Claim of Rights in King Kong

It should not be necessary to review again the complex sequence of court proceedings and contractual arrangements that comprise the background to Universal's claim of merchandising rights in the King Kong name, character and story elements. The history of Universal's 1976 litigation with RKO was fully developed in the earlier proceedings and the statement by the Court of Appeals summarizing the background provides a convenient -- and appropriate -- point of departure:

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> Universal traces its ownership of the King Kong trademark from RKO General's (RKO) efforts to exploit the goodwill created by its 1933 film classic of the same name. It asserts that RKO's commercial use of the name and character of King Kong created the trademark; that the rights to the trademark were passed from RKO to Richard Cooper, son and heir of King Kong creator Merian Cooper, pursuant to a judgment resulting from a claim brought by Richard Cooper against RKO alleging that RKO had exceeded the license originally granted by Merian Cooper to make the original King Kong motion picture; and that Richard Cooper subsequently transferred to Universal for consideration the rights he obtained from RKO.

Slip Op. at 6539.

Universal recited this history in support of its infringement claim, the appellate court's statement accurately reflects the findings of this Court on the earlier motion, and presumably Nintendo will not now dispute that this indeed is how Universal claims to have acquired its rights in King Kong.

The Court is also familiar with the basic documents, including Richard Cooper's agreement with Universal of December 15, 1976.* (PX1.) In substance the Cooper agreement provided

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* Universal's evidence is presented in four Exhibit Booklets, described in the affidavit of Mary D. Faucher, sworn to December 20, 1984. References to evidence are to Interrogatory Responses (Exhibit Booklet I), Deposition Transcript pages, hereinafter "Deponent Dep. at ____" (Exhibit Booklet II), documents produced in discovery or in the public record, hereinafter "PX____" (Exhibit Booklet III), and pictorial video game board samples and video game commentary, hereinafter "PX____" (Exhibit Booklet IV).

that in consideration of a payment of $200,000, Cooper was conveying to Universal all of Cooper's right, title and interest in the "name, the character and the title 'King Kong.'" The Cooper agreement also granted Universal all of the rights which Cooper held as beneficiary of the constructive trusts that had been established in his favor by the findings and judgment entered on Cooper's cross-claim against RKO. The record also shows that as of the date of the Cooper assignment, Universal was not in a legal position to undertake any King Kong merchandising. RKO had previously licensed DDLC and Paramount Pictures Corporation ("Paramount") to use the King Kong name and character to merchandise products tied in with DDLC's 1976 King Kong remake and only after these licenses expired (towards the end of 1979 and beginning of 1980) did Universal consider plans to merchandise King Kong on its own. See 578 F. Supp. at 917.

The first written evidence of Universal's views on the status of its rights to exploit King Kong is an internal memorandum, prepared by Joseph Di Muro, a senior Universal staff attorney familiar with the RKO litigation. Di Muro was responding to an inquiry of Universal's Chief Executive Officer Sidney Sheinberg in June 1980, and his memo reviewed the background to Universal's King Kong rights and confirmed to Sheinberg Universal's legal right to merchandise King Kong. Di Muro's opinion concluded as follows:

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a) The "KING KONG" merchandising rights granted by RKO to DDLC and by DDLC to Paramount expired in December 1979, that is, three years after the first general release of DDLC's "KING KONG." The five year period (referred to in paragraph 1 above) does not establish the length of DDLC's exclusivity period but merely fixes an outside date, beyond which the exclusivity period (and the right to merchandise) could not run.

b) Under the Cooper-Universal Agreement, Universal acquired all "KING KONG" merchandising rights (which the U.S. District Court found to be vested in Cooper) except that Cooper retains the proceeds from all merchandising licenses entered into prior to December 15, 1976 other than DDLC and/or Paramount merchandising of DDLC's "KING KONG."

(PX3; emphasis in original.)

Di Muro followed up his memo to Sheinberg with letters in July 1980 to RKO, Paramount and DDLC, advising each of Universal's merchandising rights in King Kong and of its intention to exploit its rights shortly. (PX4, PX5, PX6.) Several months later, Merchandising Corporation of America ("Merchandising"), Universal's trademark merchandising company, licensed the King Kong name (and a King Kong gorilla) to Ben Cooper Inc. for Halloween costumes, continuing in effect a King Kong license Ben Cooper had previously signed with Paramount. (PX7.) There was no further licensee interest in King Kong until late August 1981, when Tiger, a Chicago based developer

will forego what in effect would be an anticipatory response to argument over the significance of Ms. Sifuentes' views until its reply brief comes due. The fact remains that Di Muro's memorandum to Sheinberg of June 1980 was never contradicted by any written opinion given by Ms. Sifuentes or anyone else at Universal and there is no claim, even by Ms. Sifuentes, that she ever explained her views to Sheinberg.* This is important in the present motion, largely because the decisions and actions which Nintendo challeges in its counterclaims were taken by Universal's top management, specifically Sidney Sheinberg, who took legal advice on (a) Universal's rights in King Kong and (b) Universal's claims over Donkey Kong from the company's general counsel who had handled Universal's 1976 litigation with RKO. (Sheinberg Dep. at 123, 268-69; Hadl Dep. at 88-93, 97.)**

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* There is no issue on this point. Ms. Sifuentes acknowledged that she never spoke to Sheinberg about Universal's rights in King Kong (Sifuentes Dep. at 263), did not discuss the subject with Stanley Newman (head of Merchandising) (Sifuentes Dep. at 264), nor with Stephen Kroft, Universal's outside counsel (Sifuentes Dep. at 272) and did not participate or contribute in any way to the decision by Universal to bring suit against Nintendo. (Sifuentes Dep. at 281-282.)

** The sequence -- and timing -- of events is also important. Ms. Sifuentes claims that she told Robert Hadl, a senior officer of Universal, about her views on King Kong licensing at about the time she sent a memo to Hadl (PX52) enclosing copies of Di Muro's earlier memo to Sheinberg. This was on May 12, 1982 and Ms. Sifuentes also testified that she had no discussions with Hadl on King Kong licensing matters earlier than May 8, when she claimed Hadl became "upset" with her over the Tiger license. (Sifuentes Dep. at 254.) To put this in context with respect to Nintendo's claims, by May 12 Universal had already (a) telexed Coleco and Nintendo threatening suit over Donkey Kong (this was on April 28, 1982); and (b) successfully concluded negotiations with Coleco which ended the potential lawsuit against that company for infringing King Kong. Coleco's Greenberg was clear on this, testifying at deposition that by May 5, 1982, he had a call from Hadl "to confirm the fact that we had an agreement." (Greenberg Dep. at 69.)

indication of an intent to sue (or the actual bringing of suit) is "improper" and therefore actionable interference if the litigation at issue and warnings in connection with the suit are without probable cause and are instituted primarily for a purpose other than securing proper adjudication of the claim. Restatement, § 674.

"Probable cause" to bring a lawsuit has been defined as "a state of facts [that] would lead a man of ordinary caution and prudence to believe that he has a justiciable claim to prosecute against a defendant." Grip-Pak, Inc. v. Illinois Tool Works, Inc., 694 F.2d 466, 470 (7th Cir. 1982), quoting Hulcher v. Archer Daniels Midland Co., 88 Ill. App. 3d 1, 4, 409 N.E.2d 412, 415 (1980). Probable cause exists where the party acts in reliance upon the advice of counsel, sought in good faith after full disclosure of all relevant facts within his knowledge and information. Restatement, § 675. It is clear upon the undisputed facts here that Universal did rely on counsel and had the requisite "probable cause" to initiate litigation to protect its rights in King Kong. Universal based its belief on its rights in King Kong and the propriety of instituting litigation against Nintendo over these rights on the advice it received both from its in-house counsel (PX3), and from its outside counsel who was involved in the proceeding through which it acquired these rights. (Hadl Dep. at 89-93, 97; Sheinberg Dep. at 268-69.) This basis -- advice of counsel -- provides Universal with an absolute defense to Nintendo's